



Patrick W. Henning, Director
September 3, 2008
22M:388:TLA:8131:8132



Arnold Schwarzenegger
Governor

Ms. Debra Donelson, WIA Coordinator
County of Mendocino
631 S. Orchard Ave.
Ukiah, CA 95482

Dear Ms. Donelson:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Mendocino County Local Workforce Investment Area's (MCLWIA) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Mr. TG Akins from June 23, 2008 through June 26, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by MCLWIA with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of MCLWIA, a review of applicable policies and procedures, and a review of documentation retained by MCLWIA for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on August 28, 2008, and reviewed your comments and documentation before finalizing this report. Because your response did not adequately address finding 1 cited in the draft report, we consider this finding unresolved. We request that MCLWIA provide the Compliance Review Division (CRD) with additional information or a corrective action plan (CAP) to resolve the issue that led to the finding. Therefore, this finding remains open and has been assigned Corrective Action Tracking System (CATS) numbers 80159.

Your response adequately addressed finding 2 cited in the draft report. However, this issue will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, this finding is assigned Corrective Action Tracking System (CATS) number 80160.

BACKGROUND

The MCLWIA was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, MCLWIA was allocated: \$233,524 to serve 102 adult participants; \$260,233 to serve 85 youth participants; and \$213,591 to serve 46 dislocated worker participants.

For the quarter ending March 31, 2008, MCLWIA reported the following expenditures and enrollments for its WIA programs: \$48,359 to serve 68 adult participants; \$190,672 to serve 54 youth participants; and \$105,836 to serve 34 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, MCLWIA is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: interest bearing account and excess cash. The findings that we identified in these areas, our recommendations, and MCLWIA's proposed resolution of the findings are specified below.

FINDING 1

Requirement: 29 CFR 95.22(k) states, in part, that recipients shall maintain advances of Federal funds in interest bearing accounts, unless:

- (1) The recipient receives less than \$120,000 in Federal awards per year.

(2) The best reasonably available interest bearing account would not be expected to earn interest in excess of \$250 per year on Federal cash balances.

(3) The depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.

Observation:

We observed that MCLWIA's subrecipient Mendocino Private Industry Council (MPIC) does not use an interest bearing account. MCLWIA indicated that they thought that MPIC would not earn at least \$250 in interest per year if they had an interest bearing account. We observed that MPIC had an average daily balance of \$248,524.06 from November 1, 2007 to January 31, 2008 at a minimum. In view of this average daily balance, it is unlikely that any interest that would have been earned would be less than \$250 on the above average daily balance.

Recommendation:

We recommended that MCLWIA provide CRD documentation that substantiates MCLWIA's claim that \$250 of interest income cannot be earned on the funds that MPIC maintains in its account or provide a CAP which ensures that, in the future, MPIC keeps WIA funds in an interest bearing account.

MCLWIA Response:

The MCLWIA stated that their subrecipient MPIC analyzed their anticipated cash balances based upon their new cash request system and the local bank account offerings. This analysis led MPIC to conclude that they would not earn \$250 per fiscal year in interest income on WIA funds and would not need to open an interest bearing account.

State Conclusion:

Based on MCLWIA's response, we cannot resolve this issue at this time. A copy of MPIC's analysis was not provided to substantiate the claim that MPIC would not earn \$250 per fiscal year in interest income. Also, since the new cash request system was just implemented in August 2008 there has not been sufficient time elapsed to determine if the average daily balance would earn \$250 in interest income or not. We recommend that MCLWIA provide CRD documentation that substantiates MCLWIA's claim that \$250 of interest income cannot be earned on the funds that MPIC maintains in its account or provide a CAP which ensures that, in the future, MPIC keeps WIA funds in an

interest bearing account. This issue remains open and has been assigned CATS number 80159.

FINDING 2

Requirement: 29 CFR 95.21(b)(5) states, in part, that a recipients' financial management systems shall provide for written procedures to minimize the time elapsing between the transfer of funds to the recipient and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient.

WIAD04-14 states, in part, that all subrecipients are responsible for ensuring compliance with the requirements contained within the WIA JTA system Cash Request Handbook. Also, all subrecipients must monitor their cash draws to ensure their account does not reflect an "excess cash" balance.

The WIA JTA System Cash Request Handbook states, in part, that excess cash is any amount which has not been shown as disbursed within three or four working days.

Observation: We observed that MCLWIA provides advances to its subrecipient, MPIC, every month for two months. For example, the December 2007 advance that was given to MPIC was for the month of February 2008 and the January 2008 advance was for March 2008. From November 1, 2007 to January 31, 2008, MPIC had an average daily balance of \$248,524.06 and the cash-on-hand never dropped below \$130,529.92.

Recommendation: We recommended that MCLWIA provide CRD with a CAP to ensure that, in the future, its subrecipient MPIC does not have excess cash-on-hand.

MCLWIA Response: The MCLWIA stated that they are now requiring MPIC to request advances twice per month. They anticipate that this will alleviate the excess cash issue because their administrative fiscal personnel will review MPIC's daily balances and make adjustments to the frequency of cash requests until an excess cash issue no longer exists.

State Conclusion: The MCLWIA stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, MCLWIA's successful

implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80160.

PROCUREMENT REVIEW RESULTS

We concluded that, overall, MCLWIA is meeting applicable WIA requirements concerning procurement.

However, we identified a condition that may become a compliance issue if not addressed. Specifically, MCLWIA's procurement policies and procedures only required one price quote for purchases from \$0 to \$999. We suggested that MCLWIA provide CRD with an approved copy of their updated procurement policies and procedures that ensures that all purchases require more than one price quote.

In its response, MCLWIA stated that they have updated their procurement policies and procedures to include language requiring two price quotes for purchases from \$0-\$999. MCLWIA provided a copy of the Executive Committee Agenda for September 10, 2008 which shows that the updated policy will be reviewed for approval. Also, MCLWIA indicated that they will provide the Executive Committee Meeting minutes and the approved policy no later than September 30, 2008. The MCLWIA's response adequately addressed our concern.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than October 27, 2008. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is MCLWIA's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain MCLWIA's responsibility.

Ms. Debra Donelson

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September 3, 2008

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Mr. Jim Tremblay at (916) 654-7825 or Mr. TG Akins at (916) 654-8428.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessie Mar", written in a cursive style.

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Linda Beattie, MIC 50
Jose Luis Marquez, MIC 50
Don Migge, MIC 50
Daniel Patterson, MIC 45